



STATE OF WISCONSIN
Department of Employee Trust Funds
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Dear Wisconsin Retirement System (WRS) Retirees:

The financial health of the WRS remains in sound financial condition in spite of volatility in the markets throughout the year. With assets totaling \$79.1 billion, the WRS is the 9th largest public pension in the nation and the 30th largest in the world, and well positioned to pay all of its benefit promises – both now and in the future.

At this time of year, many of you want to know what to expect in terms of the 2012 annuity adjustments. The Department will announce the Core and Variable annuity adjustments in March 2012, after final State of Wisconsin Investment Board (SWIB) returns for 2011 are determined.

However, no matter the final outcome for 2011, keep this in mind: **The Core annuity adjustment will once again incorporate the effect of 2008's Core Fund steep 26% investment decline.** That is because Core Fund gains and losses for any given year are “smoothed” (recognized) in equal increments over five years to cushion the effect of volatility. This year's rate calculations will incorporate investment experience from 2007 to 2011. The Core Fund recorded gains in 2007, 2009 and 2010, which will help mitigate the impact of 2008's approximately \$21 billion loss.

As of November 30, 2011, the Core Trust Fund investment return was 0.9%, based on preliminary figures. Although we do not know how this year will end, the following table shows the **projected** range of Core Fund effective rates and annuity adjustments for 2012. The figures are based on three different State of Wisconsin Investment Board (SWIB) return scenarios:

<u>Projected</u> Core Fund Effective Rates and Annuity Adjustments			
If SWIB's net investment return on 12/31/11 is...	5%	0%	-5%
...the Core Effective Rate is <u>projected</u> to be approximately...	1.8% to 2.8%	0.8% to 1.8%	-0.2% to 0.8%
...and the Core Annuity Adjustment is <u>projected</u> to be approximately...	-3.2% to -4.2%	-4.1% to -5.1%	-4.9% to -5.9%

The Core projections shown above are based on information available as of the date of this letter. **Actual investment results for 2011 (the net investment returns) are announced in January.** In addition to investment returns, mortality and other actuarial factors play a role in the rate setting process.

Again, we cannot predict how things will go the rest of this year. We do know that the **Core Fund must gain approximately 22.8% in order to avoid a negative adjustment**. Therefore, please be aware that the Department may have to reduce Core annuities once again, effective May 1, 2012.

Keep in mind that your Core annuity can never be decreased below the finalized amount you received at retirement. Over the years you may have experienced core annuity increases, and these can later be repealed through negative Core annuity adjustments. However, there is a threshold; negative Core adjustments can never decrease your annuity below your finalized annuity amount.

What about the Variable annuity adjustment?

Members in this optional Fund experience the full effect of market gains or losses each year – returns are not smoothed. However, there is no limit to how much your Variable annuity can be decreased if there are multiple years with poor Variable Fund investment returns. The Variable annuity adjustment is closer to actual Variable Fund investment performance, less 5% (which was built into the Variable annuity calculation at retirement). As of November 30, 2011, the Variable Fund investment return was -3.3% (negative). Based on that preliminary figure, the Variable annuity adjustment would be approximately -8% (negative).

The Variable annuity adjustment is closer to actual Variable Fund investment performance.

When will retirees find out how much their monthly annuities may change?

Core and Variable annuity adjustments will first be reflected on the May 1, 2012 payment. Several weeks prior, ETF will notify retirees regarding any monthly benefit amount changes. In the meantime, monitor our website at <http://etf.wi.gov> for announcements regarding final investment returns and subsequent rates and adjustments.

For more information, review the following ETF resources:

Online videos

WRS-Interest vs. Annuity Adjustments

Canceling Variable Fund Participation

Find these in our video library at <http://etf.wi.gov/webcasts.htm>

Brochures

How Participation in the Variable Trust Affects WRS Benefits (ET-4930)

Canceling Variable Participation (ET-2313)

Find these on our website at <http://etf.wi.gov/publications.htm> or contact us to request a paper copy.